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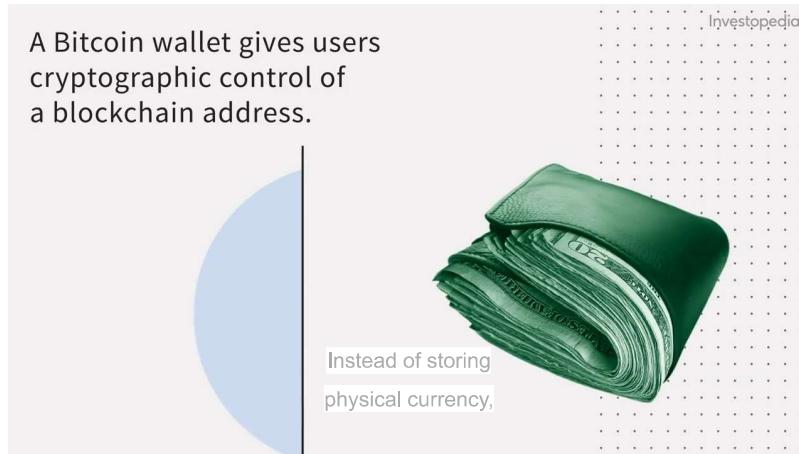
BUYING & SELLING > CRYPTO WALLETS

Cryptocurrency Wallet: What It Is, How It Works, Types, Security

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What Is a Cryptocurrency Wallet?

A cryptocurrency wallet is an application that functions as a [wallet](#) for your cryptocurrency. It is called a wallet because it is used similarly to a wallet you put cash and cards in. Instead of holding these physical items, it stores the passkeys you use to sign for your cryptocurrency transactions and provides the interface that lets you access your crypto.

Modern cryptocurrency wallets make the blockchain accessible to everyone. When cryptocurrency was first introduced, sending cryptocurrency was a manual task that required entering long keys. Today, the software does most of it for you.

The first wallet was that of Bitcoin's developer, Satoshi Nakamoto. The second wallet belonged to Hal Finney, who corresponded with Nakamoto and reportedly was the first to run the Bitcoin client software wallet. Nakamoto sent him 10 bitcoin as a test, and the cryptocurrency craze began. [\[1\]](#) [\[2\]](#)

KEY TAKEAWAYS:

- A cryptocurrency wallet is a device or program that stores your cryptocurrency keys and allows you to access your coins.
- Wallets contain a public key (the wallet address) and your private keys needed to sign cryptocurrency transactions. Anyone who knows the private key can control the coins associated with that address.

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cryptocurrencies.



Cryptocurrency Wallet

[ˌkrip-tō-ˈkär-ən(t)-sē ˈwā-lət]

An application that functions as a wallet for your cryptocurrency.

 Investopedia

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Understanding Cryptocurrency Wallets

Cryptocurrency wallets are software applications on computers or mobile devices such as phones or tablets. They use an internet connection to access the blockchain network for the cryptocurrency you're using.



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Cryptocurrencies are not "stored" anywhere—they are bits of data stored in a database. These bits of data are scattered all over the database; the wallet finds all of the bits associated with your public address and sums up the amount for you in the app's interface.

Sending and receiving cryptocurrency is very easy using these applications. You can send or receive cryptocurrency from your wallet using various methods. Typically, you enter the recipient's wallet address, choose an amount to send, sign the transaction using your private key, add an amount to pay the transaction fee, and send it.

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Receiving is even easier—the sender enters your address and goes through the same routine. You accept the payment, and the transaction is done.

Cryptocurrency Wallet Types

There are two main types of wallets, custodial and noncustodial. Custodial wallets are hosted by a third party that stores your keys for you. This could be a company that provides enterprise-level data security systems businesses use to preserve and secure data. Some [cryptocurrency exchanges](#) offer custodial wallets for their customers. Noncustodial wallets are wallets in which you take responsibility for securing your keys. This is the type that most cryptocurrency wallets on devices are.

There are two subcategories of wallets, [hot and cold](#). A hot wallet has a connection to the internet or to a device that has a connection, and a [cold wallet](#) has no connection. Lastly, there are three subcategories of wallets—software, hardware, and paper. Each of these types is considered either a hot or cold wallet.

So, you can have a noncustodial software hot wallet, a noncustodial hardware cold or hot wallet, or a custodial hardware cold wallet. These are the most common types, but you may also encounter other combinations.

Software Wallets

Software wallets include applications for desktops and mobile devices. These wallets are installed on a desktop or laptop computer and can access your cryptocurrency, make transactions, display your balance, and much more. Some software wallets also include additional functionality, such as exchange integration if you're using a wallet designed by a cryptocurrency exchange.

Many mobile wallets can facilitate quick payments in physical stores through [near-field communication](#) (NFC) or by scanning a [QR code](#). Mobile wallets tend to be compatible with iOS or Android devices. Trezor, Electrum, and Mycelium are [examples](#) of wallets that you can use. Software wallets are generally hot wallets.

Warning: You use private keys to access your cryptocurrency. Anyone who has your private key can access your coins.

Hardware Wallets

Hardware wallets are the most popular type of wallet because you can store your private keys and remove them from your device. These devices resemble a USB drive, and modern hardware wallets have several features.

You can make a cryptocurrency transaction on your computer or device by plugging in the hardware wallet. Most of them can sign cryptocurrency transactions automatically without requiring you to enter the key, circumventing a hacker's ability to log your keypresses or record your screen.

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Important: Some new hardware wallets come with the ability to connect to your device through Bluetooth. Use these with caution because Bluetooth is a wireless signal that can be accessed by unwanted parties when it is turned on.

Paper Wallets

Early crypto users would write or type their keys on paper, which they called [paper wallets](#). These evolved to include the keys and QR codes so wallets on mobile devices could scan them. However, paper wallets are easily damaged or lost, so many crypto owners do not use them anymore.

However, there is nothing wrong with using a paper wallet if you take measures to store it properly in a safe or deposit box and check on it once in a while to ensure it hasn't deteriorated.

Crypto Wallet Security

Wallet safety is essential, as cryptocurrencies are high-value targets for [hackers](#). Some safeguards include encrypting the wallet with a strong password, using two-factor authentication for exchanges, and storing any large amounts you have offline.

Important: There have been many cases of malware disguised as wallets, so it is advisable to research carefully before deciding which one to use.

Seed Words

Most modern wallets generate a twelve-word mnemonic seed phrase. An example phrase could be "airport bedroom impression sample reception protection road shirt..." which seems random but is created and linked to your keys by your wallet. You can use the phrase to restore the wallet if the device is lost or damaged. These words should be carefully stored in a safe place because anyone who finds them will be able to access your cryptocurrency.

Cryptocurrency Exchanges

Cryptocurrency exchanges have started offering custodial key storage for their users. However, you should use this service cautiously. Cryptocurrency exchanges are highly-prized targets for cybercriminals.

Additionally, if the cryptocurrency exchange goes out of business, there may be no guarantees that you'll get your cryptocurrency back. For example, Coinbase, a popular exchange, announced in its quarterly report to the Securities and Exchange Commission in May 2022 that: ^[3]

...custodially held crypto assets may be considered to be the property of a bankruptcy estate, in the event of a bankruptcy, the crypto assets we hold in custody on behalf of our customers could be

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General unsecured creditors are lower in priority on the list of creditors in a bankruptcy proceeding. Therefore, if there are not enough [assets](#) to liquidate and meet financial requirements for higher priority creditors, it is possible to lose your crypto assets if your custodial wallet company declares bankruptcy.

The best cryptocurrency key security measures involve removing your keys from your wallet, placing them in a form of cold storage, and securing them in a vault, safe, or deposit box. The more steps it takes for you to access your cryptocurrency, the harder it is for a criminal to access them. This way, you ensure you don't lose your keys. It also ensures that someone you have entrusted with your keys doesn't lose them or deny you access to them.

Which Cryptocurrency Wallet Is Best?

There are various wallets you can choose from with many options. It's best to read as many reviews as possible to find one that fits your needs while ensuring your keys are secure.

What Is the Safest Crypto Wallet?

The [safest crypto wallet](#) has no connection on its own or to a device with internet access. It also should not deny you access to your crypto because the custodian has financial issues. Many so-called "safe" wallets have wireless connection technology that determined cybercriminals can access.

Do I Need a Wallet for Cryptocurrency?

Yes. You cannot access your cryptocurrency without your private keys and an interface that accesses a blockchain. All wallets can store keys, but only hot wallets can access the blockchain, so it's important to keep your keys off your hot wallet until you need them.

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